



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of Kanstar Environmental Paper Products Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



HIGHLIGHTS

- Unaudited turnover of approximately HK\$26,157,000 for the six months ended 30 June 2007, representing a decrease of approximately 3% as compared to that of the corresponding period in last year.
- Unaudited net loss attributable to shareholders for the six months ended 30 June 2007 amounted to approximately HK\$3,223,000 whereas an unaudited net profit attributable to shareholders of approximately HK\$277,000 was recorded in the corresponding period of last year.
- The Directors do not declare any dividend for the six months ended 30 June 2007.



INTERIM RESULTS

The board of directors (the “Board”) of Kanstar Environmental Paper Products Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2007, together with the comparative unaudited figures for the corresponding period in 2006, as set out below:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 June		Six months ended 30 June	
		2007	2006	2007	2006
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	14,693	11,736	26,157	27,007
Cost of sales		(13,489)	(9,702)	(23,690)	(23,403)
Gross profit		1,204	2,034	2,467	3,604
Other revenue		646	—	1,259	7
Selling and distribution expenses		(271)	(588)	(662)	(722)
Administrative and other operating expenses		(1,498)	(1,066)	(4,356)	(2,031)
Profit/(loss) from operations		81	380	(1,292)	858
Finance costs		(305)	(331)	(764)	(581)
Share of results of associates		(837)	—	(1,167)	—
Profit/(loss) before tax	4	(1,061)	49	(3,223)	277
Income tax	5	—	—	—	—
Profit/(loss) for the period		(1,061)	49	(3,223)	277
Profit/(loss) attributable to equity holders of the Company		(1,061)	49	(3,223)	277
Dividend	6	—	—	—	—
Earnings/(loss) per share	7				
— basic		(0.022 cent)	0.001 cent	(0.067 cent)	0.007 cent
— diluted		N/A	0.001 cent	N/A	0.007 cent



CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2007 (Unaudited) <i>HK\$'000</i>	31 December 2006 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		36,025	35,111
Prepaid lease payments on land		2,289	2,245
Interests in associates		223,149	224,316
		261,463	261,672
CURRENT ASSETS			
Inventories		9,519	11,087
Trade and other receivables	8	13,774	11,520
Cash and bank deposits		12,707	3,809
		36,000	26,416
CURRENT LIABILITIES			
Bank and other loans — secured		(22,816)	(18,901)
Trade and other payables	9	(16,360)	(12,672)
Amounts due to directors		(3,493)	(3,284)
		(42,669)	(34,857)
NET CURRENT LIABILITIES			
		(6,669)	(8,441)
NET ASSETS			
		254,794	253,231
CAPITAL AND RESERVES			
Share capital	10	9,750	9,600
Reserves		245,044	243,631
TOTAL EQUITY			
		254,794	253,231



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Revaluation reserve <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	8,000	35,770	985	23,509	—	162	(13,154)	55,272
Profit for the period	—	—	—	—	—	—	277	277
At 30 June 2006	8,000	35,770	985	23,509	—	162	(12,877)	55,549
At 1 January 2007	9,600	259,770	985	14,508	—	42	(31,674)	253,231
Issue of shares on exercise of share options	150	—	—	—	—	—	—	150
Issue of warrants	—	—	—	—	4,422	—	—	4,422
Exchange differences arising on translation of foreign operations	—	—	—	—	—	214	—	214
Loss for the period	—	—	—	—	—	—	(3,223)	(3,223)
At 30 June 2007	9,750	259,770	985	14,508	4,422	256	(34,897)	254,794

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	1,678	(2,328)
Net cash inflow/(outflow) from investing activities	4,495	(823)
Net cash inflow from financing activities	4,124	5,228
Increase in cash and cash equivalents	10,297	2,077
Cash and cash equivalents at beginning of the period	3,809	864
Effect of foreign exchange rate changes	(1,399)	—
Cash and cash equivalents at end of the period	12,707	2,941
Analysis of balances of cash and cash equivalents:		
Cash and bank deposits	12,707	2,941



NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and principal accounting policies

The unaudited condensed interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The unaudited condensed interim consolidated financial statements have been reviewed by the audit committee of the Company.

The accounting policies adopted in preparing the unaudited condensed interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

2. Turnover

Turnover represents revenue from the sales of pulp and paper products, net of discounts and returns, during the periods.

3. Segment information

For the six months ended 30 June 2007, the Group was principally engaged in the sales of pulp and paper products and all the turnover are derived in the People's Republic of China ("PRC"). Accordingly, no business or geographic segment information is presented.

4. Profit/(loss) before tax

Profit/(loss) before tax has been arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation of property, plant and equipment and amortisation of lease payment on land	379	302	728	746
Interest on bank and other borrowings wholly repayable within 5 years	305	331	764	581



5. Income tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profit in Hong Kong for the three months and six months ended 30 June 2007 (three months and six months ended 30 June 2006: Nil).

Pursuant to the relevant laws and regulations in the PRC, one of the PRC subsidiaries of the Company is exempted from the PRC income tax for two years starting from the first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the unaudited condensed interim consolidated financial statements as that PRC subsidiary had no assessable profit during the periods. The other PRC subsidiary was in loss making position for the current and the previous periods and accordingly did not have any assessable profit.

There was no material unprovided deferred tax in respect of the three months and six months ended 30 June 2007 (three months and six months ended 30 June 2006: Nil).

6. Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

7. Earnings/(loss) per share

The calculations of the basic and diluted earnings/(loss) per share are based on the following data:

	Three months ended 30 June		Six months ended 30 June	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Profit/(loss) for the period				
Profit/(loss) for calculating basic and diluted earnings/(loss) per share	(1,061)	49	(3,223)	277
Number of shares	'000	'000	'000	'000
Issued ordinary shares at beginning of the period	4,800,000	4,000,000	4,800,000	4,000,000
Effect of shares issued during the period	10,714	—	5,387	—
Weighted average number of ordinary shares used in the calculation of basic earnings/(loss) per share	4,810,714	4,000,000	4,805,387	4,000,000
Effect of dilutive potential ordinary shares	73,095	182,783	74,100	182,792
Weighted average number of ordinary shares used in the calculation of diluted earnings/(loss) per share	4,883,809	182,783	4,879,487	4,182,792



8. Trade and other receivables

The Group has a policy of allowing average credit periods ranging from 2 weeks to one month to its trade customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

An aged analysis of trade receivables is as follows:

	30 June 2007	31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 30 days	2,650	3,141
31 — 60 days	1,030	—
61 — 90 days	747	58
91 — 120 days	1,113	—
Over 120 days	258	4
	5,798	3,203
Other debtors, deposits and prepayments	7,976	8,317
	13,774	11,520

9. Trade and other payables

An aged analysis of trade payables is as follows:

	30 June 2007	31 December 2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 — 30 days	328	1,221
31 — 60 days	483	2,406
61 — 90 days	41	352
91 — 120 days	—	—
Over 120 days	6,790	3,263
	7,642	7,242
Other creditors and accrued charges	8,718	5,430
	16,360	12,672



10. Share capital

Ordinary shares of HK\$0.002 each

	Number of shares <i>'000</i>	Share capital <i>HK\$'000</i>
Authorised:		
At 1 January 2006 and 30 June 2007	10,000,000	20,000
Issued and fully paid:		
At 1 January 2007	4,800,000	9,600
Shares issued on exercise of share options	75,000	150
At 30 June 2007	4,875,000	9,750

11. Capital commitments

At 30 June 2007, the Group had outstanding capital commitments of approximately HK\$2,385,000 (31 December 2006: HK\$2,665,000) in respect of the acquisition of property, plant and equipment in the PRC contracted for but not provided for in the financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the six months ended 30 June 2007, the Group recorded an unaudited turnover of approximately HK\$26 million which was decreased by approximately 3% comparing to that of last corresponding period. The unaudited net loss for the period was approximately HK\$3.2 million. In last corresponding period, the Group had recorded an unaudited profit of approximately HK\$277,000.

The directors of the Company do not recommend the payment of an interim dividend for the period (six months ended 30 June 2006: Nil).

In this period, the Group's administrative and other operating expenses amounted to approximately HK\$4,356,000, representing an increase of approximately HK\$2,325,000 comparing with the corresponding period in 2006. The increase was mainly resulted from legal and professional fees, amounted to approximately HK\$2 million, incurred for the proposed further acquisition of 30% equity interest in Polyard Petroleum International Company Limited ("Polyard") and the proposed disposal of a wholly-owned subsidiary, Yunnan Changning Kanstar Paper Company Limited ("Yunnan Changning"). Details of the proposed acquisition and disposal were disclosed in a circular issued by the Company on 6 August 2007.

The finance costs in the current period were mainly attributable to interest expenses on loans raised to finance the manufacturing of pulp and paper products.



Prospects

The Group is principally engaged in the research and development of paper filling materials and the manufacture and sale of pulp and paper products in the PRC. The acquisition of Polyard allows the Group to diversify into the oil and gas exploration and extraction business and allows the Group to re-deploy its resources in a more productive manner.

In view of high oil and gas price, the Directors are optimistic about the performance of the Group as the Group's investment in the oil and gas exploration and extraction business is expected to improve the Group's profitability, sustain its growth momentum, and broaden the revenue stream of the Group.

Foreseeing the future development, the Group will focus its corporate resources on oil and gas business while the Group will continue to operate its business of the sale of pulp and paper products to maintain income stream to the Group.

The Directors anticipate that the intense competition and weak operational performance in the pulp and paper products industry may continue in the near future, therefore, the Group will continue to implement stringent cost control measures to improve the Group's operating results in the business of sale of pulp and paper products.

Liquidity and Financial Resources

As at 30 June 2007, the Group had a healthy financial position with net assets amounted to approximately HK\$253 million.

As at 30 June 2007, guarantee was given by the Company to bank to secure banking facilities made available to a subsidiary amounted to HK\$15 million (31 December 2006: HK\$15 million). As at 30 June 2007, the Group had total outstanding borrowings of approximately HK\$22.8 million (31 December 2006: HK\$18.9 million), comprising (i) loan of approximately HK\$2 million from a 信用合作社 in the PRC, which is secured by Yunnan Changning's leasehold land and buildings in the PRC; (ii) loans of approximately HK\$5.2 million from a bank in the PRC, which is also secured by Yunnan Changning's leasehold land and buildings in the PRC and (iii) loans of approximately HK\$15.6 million from banks in Hong Kong, which are guaranteed by the Company and Directors.

Employee Information

As at 30 June 2007, the Group had a total number of staff of approximately 500. Remuneration packages are reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance. Besides, a share option scheme was adopted by the Company, pursuant to which the Directors may offer to any eligible employees (including executive directors and independent non-executive directors) of the Company and any of its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the share option scheme. However, save for the share options granted prior to the listing, no other options have been granted up to 30 June 2007. Staff costs amounted to approximately HK\$1,898,000 for the six months ended 30 June 2007 as compared with that of approximately HK\$1,981,000 for the corresponding period of the last year.



Very Substantial and Connected Transactions

During this period, the Group entered into different agreements in respect of various transactions, which are subject to the approval by independent shareholders of the Company at an extraordinary general meeting to be convened on 29 August 2007, as follows:

On 8 January 2007, an agreement was entered into for the acquisition of a further 30% equity interest in Polyard from Mr. Lam Nam, the sole owner of Silver Star Enterprises Holding Inc., a substantial shareholder of the Company, at a consideration of HK\$505 million to be paid/satisfied in the following manners:—

- (i) HK\$191.88 million by the issue of shares of the Company at an issue price of HK\$0.36 per share;
- (ii) HK\$287.12 million by the issue of convertible bonds, with a conversion price of HK\$0.43 per share of the Company, at an interest rate of 3% per annum for a term of 3 years from the date of issue; and
- (iii) HK\$26 million in cash.

On 8 January 2007, an agreement was entered into for the disposal of Yunnan Changning by Kanstar Hong Kong Limited, a wholly-owned subsidiary of the Company, as to the Group's interest in the registered capital and shareholder's loan in Yunnan Changning to Sure Carl Investment Limited ("Sure Carl"), an investment holding company wholly-owned by Mr. Chim Kim Kiu, Jacky, the chairman and a Director of the Company, at a consideration consists of HK\$26 million in cash and an undertaking given by Sure Carl to repay the total principal of approximately HK\$15.6 million under banking facilities due and payable by the Group.

On 26 January 2007, an agreement was entered into for the supply of pulp and paper products by Yunnan Changning, after completion of disposal of Yunnan Changning by the Group to Sure Carl, to the Group at a price not less favourable than purchase from independent third party for a term to be expired on 31 December 2009.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Up to 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2007, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, relating to the required standard of dealings by directors of listed issuers, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name of Director	The Company/ name of associated corporation	Capacity	Number of shares <i>(Note 1)</i>	Approximate percentage of interests
Mr. Chim Kim Kiu, Jacky	The Company	Interest of a controlled corporation	1,533,350,000 (L) <i>(Note 2)</i>	31.45%
Mr. Sun Tak Keung	The Company	Beneficial owner	47,580,000 (L) <i>(Note 3)</i>	0.98%

Notes:

1. The letter "L" represents the interests in shares or underlying shares of the Directors or chief executives.
2. Mr. Chim Kim Kiu, Jacky is a Director and chief executive.
3. Mr. Sun Tak Keung is a Director.

Save as disclosed above, none of the Directors or chief executives of the Company had, as at 30 June 2007, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.



INTEREST DISCLOSABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, so far as known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held <i>(Note 1)</i>	Capacity	Approximate percentage of interests
Siko Venture Limited	1,533,350,000 (L) <i>(Note 2)</i>	Beneficial owner	31.45%
Lam Nam	800,000,000 (L) <i>(Note 3)</i>	Interest of a controlled corporation	16.41%
	1,175,679,607 (L) <i>(Note 4)</i>	Beneficial owner	24.12%
Silver Star Enterprises Holdings Inc. <i>(Note 3)</i>	800,000,000 (L)	Beneficial owner	16.41%
Inwood Support Limited <i>(Note 5)</i>	530,700,000 (L) <i>(Note 6)</i>	Beneficial owner	10.89%
Wu Bo <i>(Note 5)</i>	530,700,000 (L)	Interest of a controlled corporation	10.89%
Lin Xuefang <i>(Note 7)</i>	530,700,000 (L)	Interest of spouse	10.89%
Kingston Finance Limited <i>(Note 8)</i>	280,000,000 (L)	Security interest	5.74%
Chu Yuet Wah <i>(Note 8)</i>	280,000,000 (L)	Interest of a controlled corporation	5.74%
Ma Siu Fong <i>(Note 8)</i>	280,000,000 (L)	Interest of a controlled corporation	5.74%
Yeung Ka Sing, Carson	280,000,000 (L)	Beneficial owner	5.74%



Notes:

1. The letter "L" represents the person's interests in shares or underlying shares.
2. The entire issued share capital of Siko Venture Limited is beneficially owned by Mr. Chim Kim Kiu, Jacky, the chairman and a Director of the Company.
3. The entire issued share capital of Silver Star Enterprises Holding Inc. is beneficially owned by Mr. Lam Nam.
4. These shares comprise 533,000,000 consideration shares that are to be allotted and issued and 642,679,607 shares that may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds that are to be created and issued upon completion of the acquisition of a further 30% equity interest in Polyard by the Company.
5. Inwood Support Limited is wholly owned by Wu Bo.
6. These shares represent the shares to be allotted and issued upon exercise in full of the subscription rights attaching to the warrants held by Inwood Support Limited.
7. Lin Xuefang is the spouse of Wu Bo.
8. Kingston Finance Limited is owned as to 51% by Chu Yuet Wah and 49% by Ma Siu Fong.

Save as disclosed above, as at 30 June 2007, the Directors are not aware of any other person or corporation having an interest or short position in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company.



SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 26 June 2002, certain Directors and participants have been granted options to subscribe for shares at an exercise price of HK\$0.002 per share, details of which are set out as follows:

Name of grantee	Date of grant	Exercisable period	Granted	Number of shares options		
				Outstanding as at 1 January 2007	Exercised during the period under review	Outstanding as at 30 June 2007
<i>Executive director:</i>						
Mr. Sun Tak Keung	26 June 2002	12 July 2002 — 11 July 2007	45,000,000	45,000,000	(45,000,000)	—
		12 January 2003 — 11 January 2008	30,000,000	30,000,000	(30,000,000)	—
<i>Other participants:</i>						
Employees in aggregate	26 June 2002	12 July 2003 — 11 July 2008	48,750,000	500,000	—	500,000
Total				75,500,000	(75,000,000)	500,000

No share options under the share option scheme (the "Share Option Scheme") adopted by the Company on 26 June 2002 were granted during the six months ended 30 June 2007.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in the Prospectus issued by the Company on 5 July 2002.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES

Save as disclosed above, at no time during the period from 1 January 2007 to 30 June 2007 was the Company, its subsidiaries or holding company a party to any arrangements to enable the Directors or chief executives (including their spouses or children under 18 years of age) of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.



REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2007, the Company had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors of the Company had complied with the required standard of dealings and the code of conduct for the Directors' securities transactions during the six months ended 30 June 2007.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the six months ended 30 June 2007.

COMPETING INTERESTS

Mr. Chim Kim Kiu, Jacky, the chairman and a Director of the Company, is a director of Riches Good Limited ("Riches Good"), the entire issued share capital of which is held by Mr. Chim Kim Kiu, Jacky. In October 2004, Riches Good purchased the assets and production machines from a bankrupted paper manufacturing plant. As the products produced by Riches Good are different from that of the Group's products, the Directors consider the impact of such similar business on the Group is minimal.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had, at any material time, an interest in a business which competed or might compete with the business of the Group.

CODE OF CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 June 2007, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

RELATED PARTY TRANSACTIONS

- (a) During the period, Mr. Chim Kim Kiu, Jacky, the chairman and a Director of the Company, has given personal guarantees to the extent of HK\$19,500,000 (six months ended 30 June 2006: HK\$19,500,000) to different banks for granting banking facilities to the Group.
- (b) During the period, a close member of the family of Mr. Sun Tak Keung, a Director of the Company, has given personal guarantees to the extent of HK\$15,000,000 (six months ended 30 June 2006: HK\$15,000,000) to a bank for granting banking facilities to a subsidiary of the Company.



CONTINGENT LIABILITIES

As at 30 June 2007, the Company has given guarantee amounting to HK\$15,000,000 (31 December 2006: HK\$15,000,000) to a bank in respect of general banking facilities granted to a subsidiary. The extent of such facilities utilised by the subsidiary at 30 June 2007 was HK\$12,400,000 (31 December 2006: HK\$13,700,000).

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference pursuant to the GEM Listing Rules. The duties of the Audit Committee include review and monitor the financial reporting procedures and internal control system of the Group. As at 30 June 2007, the Audit Committee comprises three independent non-executive Directors, namely Messrs. Chan Chi Hung, Anthony, Wan Hon Keung and Wang Ai Guo.

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2007 have been reviewed by the Audit Committee. In the opinion of the Audit Committee, such unaudited results complied with the applicable accounting standards and requirements and contained adequate disclosures.

The unaudited condensed consolidated results of the Group for the six months ended 30 June 2007 have not been reviewed by the external auditors of the Company.

On behalf of the Board
Kuei Wai
Director

Hong Kong, 10 August 2007

At the date of this report, the Board comprises four executive directors, namely Mr. Chim Kim Kiu, Jacky, Mr. Sun Tak Keung, Mr. Cheng Kwok Hing, Andy and Mr. Kuai Wei and three independent non-executive directors, namely Mr. Chan Chi Hung, Anthony, Mr. Wan Hon Keung and Mr. Wang Ai Guo.